

Message Text

CONFIDENTIAL

PAGE 01 JAKART 11470 251037Z

ACTION EB-08

INFO OCT-01 AF-10 ARA-10 EUR-12 EA-10 IO-13 ISO-00

L-03 FRB-03 OMB-01 ITC-01 SP-02 USIA-06 AGRE-00

AID-05 CIAE-00 COME-00 INR-07 LAB-04 NSAE-00

OIC-02 SIL-01 STR-04 TRSE-00 CEA-01 SS-15 INT-05

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R 250914Z AUG 77

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 3428

INFO AMEMBASSY BONN

AMEMBASSY CANBERRA

USMISSION GENEVA

AMEMBASSY KINSHASA

AMEMBASSY LIMA

AMEMBASSY LONDON

AMEMBASSY LUSAKA

AMEMBASSY MEXICO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY SANTIAGO

AMEMBASSY TOKYO

C O N F I D E N T I A L JAKARTA 11470

E.O. 11652: GDS

TAGS: EMIN, IECG, UNCTAD, ID

SUBJECT: UNCTAD/COPPER: THE INDONESIAN PERSPECTIVE

REF: STATE 176730

1. SUMMARY: INDONESIA'S CURRENT ECONOMIC STAKE IN COPPER IS SMALL; IT HAS SOME PRODUCTION, AND EXPLORATION IS CURRENTLY GOING ON IN VARIOUS PARTS OF THE COUNTRY, BUT POLITICAL MOTIVES SUCH AS FURBISHING ITS IMAGE AS A THIRD WORLD LEADER AND PROMOTING THIRD WORLD SOLIDARITY FAR OUTWEIGH THESE RELATIVELY
CONFIDENTIAL

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PAGE 02 JAKART 11470 251037Z

MINOR ECONOMIC STAKES FOR INDONESIA. IN ACCORD WITH ITS ACCUSTOMED POSTURE INDONESIA IS MOST LIKELY TO ASSUME A MODERATING LOW-KEY ROLE IN UNCTAD COPPER TALKS. IF, HOWEVER, THE CONSUMING NATIONS APPEAR INTRANSIGENT OR TO BE STALLING, INDONESIA MIGHT ASSUME A MORE AGGRESSIVE, MILITANT POSTURE. END SUMMARY.

2. IN 1976 INDONESIA EXPORTED APPROXIMATELY 67,216 TONS OF COPPER (CONTAINED IN 216,828 TONS OF COPPER CONCENTRATE), LESS THAN ONE PERCENT OF WORLD PRODUCTION. THIS EXPORT WAS WORTH \$86 MILLION, WHICH MADE IT INDONESIA'S EIGHTH MOST IMPORTANT EXPORT IN TERMS OF VALUE, BUT THE CHIEF EXECUTIVE OF INDONESIA'S ONLY COPPER-PRODUCING COMPANY ESTIMATES THAT TOTAL GOI REVENUES FROM COPPER WERE LESS THAN \$4 MILLION. (THE COMPANY, A SUBSIDIARY OF FREEPORT MINERALS, OPERATES UNDER A 1967 CONTRACT WHICH WAS THE FIRST HARD MINERALS CONTRACT SIGNED BY THE THEN NEWLY ESTABLISHED SUHARTO GOVERNMENT; THE CONTRACT IS UNIQUELY FAVORABLE TO THE OPERATOR. MOREOVER, THE MINE IS LOCATED IN A REMOTE, MOUNTAINOUS CORNER OF THE INDONESIAN PROVINCE OF IRIAN JAYA WHERE ITS NEAREST NEIGHBORS ARE STONE-AGE TRIBESMEN; THE MINE HAS LITTLE ECONOMIC SPillover, AND IS AN ALMOST PERFECT EXAMPLE OF AN ENCLAVE OPERATION). IN SHORT, INDONESIA'S EXISTING COPPER PRODUCTION HAS MINIMAL ECONOMIC IMPACT ON THE COUNTRY. INDONESIA DOES HAVE SOME ADDITIONAL POTENTIAL AS A COPPER PRODUCER, AND EXPLORATION IS CURRENTLY GOING FORWARD. IN ORDER TO CREATE AS FAVORABLE A CLIMATE AS POSSIBLE FOR THE DEVELOPMENT OF THIS POTENTIAL, INDONESIA WOULD LIKE TO SEE THE PRICE OF COPPER STABILIZE AT SOMETHING ABOVE THE \$.70/LB LEVEL.

3. THESE ECONOMIC STAKES ARE SUBSUMED UNDER THE LARGER
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PAGE 03 JAKART 11470 251037Z

STRATEGY OF THE NORTH-SOUTH DIALOGUE, AND INDONESIAN OFFICIALS ARE FRANK TO ADMIT THAT, AT LEAST WHERE COPPER IS CONCERNED, THEIR THINKING IS MORE INFLUENCED BY SUCH POLITICAL IMPERATIVES AS THIRD WORLD SOLIDARITY AND FURBISHING INDONESIA'S IMAGE AS A THIRD WORLD LEADER. INDONESIA SEES ITSELF AS A CHAMPION (ALBEIT A MODERATE ONE) OF THE NEW INTERNATIONAL ECONOMIC ORDER AND, ACCORDING TO SECRETARY GENERAL OF MINES SIGIT, "WILL PARTICIPATE IN ANYTHING THAT WILL MAXIMIZE THE OPPORTUNITIES OF THE DEVELOPING COUNTRIES". (INDONESIA IS A MEMBER OF OPEC, ITA, IBA, AND CIPEC.) HOWEVER, IT PARTICIPATES IN THESE COMMODITY GROUPS NOT IN A SPIRIT OF CONFRONTATION BETWEEN PRODUCER AND CONSUMER, BUT WITH THE HOPE OF PROMOTING A DIALOGUE. THE INTERNATIONAL TIN AGREEMENT WITH ITS PARTICIPATION BY BOTH THE MAJOR CONSUMERS AND THE MAJOR PRODUCERS IS ALMOST CERTAINLY INDONESIA'S PREFERRED MODEL FOR A COMMODITY ARRANGEMENT.

4. WITH REGARDS TO COPPER, MINISTER OF MINES SADLI AND OTHERS HAVE FRANKLY RECOGNIZED THE INEFFECTIVENESS OF CIPEC, AND STRESS THE NEED TO INVOLVE THE CONSUMING NATIONS. FOR THIS REASON UNCTAD IS THE PREFERRED FORUM

FOR DISCUSSING COPPER RATHER THAN CIPEC. BOTH SIGIT AND SADLI HAVE STATED THAT IN THE CASE OF COPPER BOTH SUPPLY CONTROLS ON THE PART OF THE PRODUCERS AND BUFFER STOCK CONTRIBUTIONS ON THE PART OF THE CONSUMERS WILL BE NECESSARY TO STABILIZE THE MARKET. SIGIT TOLD US HE BELIEVES EITHER ONE WITHOUT THE OTHER WOULD BE INEFFECTIVE, ADDING "COPPER CANNOT BE CARTELIZED".

5. SIGIT AND OTHERS INVOLVED IN FORMULATING THE INDONESIAN POSITION HAVE TOLD US THAT INDONESIA WILL ASSUME A LOW POSTURE IN THE COPPER TALKS AND, WHILE IT CAN BE EXPECTED TO BE GENERALLLY SUPPORTIVE OF THIRD WORLD/PRODUCER POSITIONS, IT SEES ITSELF AS A BRIDGE BETWEEN THE PRODUCERS AND CONSUMERS ASSUMING A GENERALLY MODERATE AND
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 JAKART 11470 251037Z

FACILITATIVE ROLE. IF THE CONSUMER NATIONS, HOWEVER, WERE SEEN AS INTRANSIGENT OR STALLING, SOME INDONESIAN OFFICIALS WOULD TRY TO PUSH INDONESIA TO ASSUME A MORE MILITANT, AGGRESSIVE POSTURE.
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